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UNITED STATES SEED ACT ASSISTANCE STRATEGY UPDATE

**FOR
POLAND**



1995-1997

**Submitted by American Embassy Warsaw
Approved September 1, 1994**

STRATEGY UNITED STATES ASSISTANCE TO POLAND 1995-1997

THE IMPORTANCE OF POLAND

The success of Poland's democratic and market-oriented reforms is critical to Western and U.S. policy towards Central and Eastern Europe (CEE) and the New Independent States (NIS). The problems Poland has faced and is facing are common to all the CEE and NIS countries. How Poland does in its struggle to put in place broad-based democracy and a functioning free market, with full respect for human rights, is extremely important to U.S. policy. Poland has become the first former centrally-planned economy to end its recession and return to growth with its democracy intact. Poland is succeeding in the transformation process; it is critical for the U.S. to continue its support for this transformation until Poland's success is irrefutable in all important aspects.

Poland's achievement has great significance, demonstrating to other countries that it can be done. This means that shortfalls must be understood in terms of specific factors, permitting concentration on those specifics, secure in the knowledge that success is happening in many areas and that specific problems are just that, rather than being indicative of broader systemic issues. It also means that there is no need to choose in principle between democracy and deep, thorough economic reform, because at least one country wrestling with the same basic set of problems--Poland--is succeeding in the dual transformation process.

Poland is the largest Central and East European State--its population being more than that of the Czech Republic, Slovakia, Hungary and Bulgaria combined--and ranks behind only its eastern neighbors of Russia and Ukraine. This size produces complexity and limits the political appeal of easy solutions. Poland is not the perfect model--no country is. Yet Poland's economic and democratic transformation will provide stability not only for its 40 million people, but will export stability and hope to the entire region.

The struggle is far from over--the 1994 balance sheet on the transformation process has both debits and credits, but Poland is on the right track. With targeted assistance, the U.S. Government can aid Poland's transformation towards a full democracy and a functioning free market.

OVERVIEW

Four years ago, Poland was the first CEE country to embrace bold policies of democratic and economic reform towards a free-market economy. By the end of 1993, Poland was the first country

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in the region that demonstrated unmistakable signs of sustained economic recovery. In 1993, Poland had an impressive output growth in excess of four percent. The very healthy expansion in the private sector has more than compensated for the decline in public sector activity. The private sector now accounts for over one half of GDP.

Democratic Maturity

As Poland is reforming its economy, democracy is also maturing. The Poland political scene has now so settled that only six parties are represented in Parliament following the September 1993 election, whereas 29 parties were represented in Parliament in 1991. The September 1993 election moved Poland's developing democracy a long way toward maturity, forcing politicians of all persuasions to acknowledge that the public expects the democratic system to focus on solving Poland's economic and social problems rather than on maneuvering among political factions. The election also made clear the public's desire for government action to more effectively and equitably use social benefits to ease the pain of the transition to the free-market system, while continuing to seek economic stability and growth.

The new government formed by the Democratic Left Alliance (SLD) and Polish Peasant Party (PSL) has made clear that it does not plan any dramatic departures in economic and social policy. Economic integration with the West remains a major priority, as does modernization and marketization of the economy. Yet the new government faces considerable pressures, even exacerbated as a result of the election campaign, to more effectively target social benefits, i.e., to continue with Poland's democratic and market-oriented reforms "but with a human face".

Private Sector Development

Poland's transformation to a free-market economy has been dramatic, building upon the entrepreneurial spirit, struggle, and ingenuity of the Poles. The private sector, cornerstone of the market economy, is firmly in place. Yet, even though now producing more than 50% of the GDP, the private sector envelops only selected cities or pockets of growth. Marketing and distributions systems remain weak, uncompetitive with world markets, nor able to break into the eastern markets. Particularly uncompetitive are state owned enterprises--enterprises needing reform, restructuring, and privatization. Newly restructured companies lack the expertise to follow restructuring with solid management, new accounting systems, strategic planning and human resource development. They remain a drain on the state budget. Meanwhile, entrepreneurs of small and medium businesses cry for capital in the form of loans or equity investment.

The restructuring of industry to adapt to the new conditions of a market economy, a necessary accompaniment to macroeconomic stabilization, has proceeded more slowly than expected. Many

state-owned enterprises continue to operate at a loss and well below full capacity; efforts to privatize them have encountered numerous snags, including a widespread perception in society that the privatization process is susceptible to unfair exploitation by investors. The law of common privatization passed Parliament in April 1993, and in October 1993, the present coalition Parliament endorsed the mass privatization program. The early 1994 resignations of Finance Ministry officials raised the question of Poland's commitment to continue privatization at the current rate, but the present government answered the question with the full endorsement of recent appointees, all of whom called for more transparency and a stronger role in privatization.

Development of Financial Infrastructure

Until recently, foreign and even domestic investors have remained hesitant because of Poland's debt and because the laws and regulatory framework are still not in place. Poland, twice the size of the Czech Republic, has attracted only a fraction of the direct investment its southern neighbor has won. The problem has been that because Poland was negotiating its large foreign debt burden, increased during the Communist era, foreign investors, particularly commercial banks, have been reluctant to lend new funds to Poland. Investors wanting to raise money for projects in Poland thus have had few sources to tap: their own cash, severely constrained Polish banks, international development organizations such as the EBRD and IBRD, or the few Western banks willing to lend to Poland, but at top rates for money. However, in April 1994, Poland successfully negotiated the second part of its debt forgiveness via the London Club cutting Poland's \$13 billion in outstanding commercial bank debt by approximately 45%. This accord, which will need at least six months more work to finalize, should begin a new chapter for Poland, bringing the nation into the global financial community, allowing an already blossoming economy to grow further and faster through new investments and credits.

However, the regulatory framework and financial sector infrastructure only weakly support the blossoming market economy and investment. The drafting and implementation of laws essential to a market economy still remain unfinished--laws involving collateral and liens, insolvency, public procurement, leasing, competition advocacy and anti-monopoly, advertising and consumer protection, white collar crime, and administrative and compliance improvements, particularly rules for domestic and foreign investors.

Although the new debt refinancing may result in foreign banks becoming bullish on Poland spurring Polish banks to modernize faster and become more customer-oriented, the infrastructure requires developing appropriate regulations and systems, and importantly, supervision. In 1993, legislation was enacted for the financial restructuring of banks--implementation is now critical. The expansion and strengthening of rural and alternative financial

institutions are necessary to serve the variety of savers and develop capital. In addition, investment banking capabilities are required to accelerate privatization and structure financial transactions.

Although the new Polish stock exchange continues to be one of CEE's most profitable for investors, Poland's primary and secondary securities markets require appropriate legal and regulatory infrastructure and investor education and protection.

Transforming Public Institutions

As new funding sources emerge and strengthened Polish banks offer creative new financing vehicles, physical infrastructure projects may now be able to tap international financial markets. National and municipal financing of housing and highway construction, the environment--including drinking water and sewage, utilities and telecommunications, may become a reality with the further development of the nation's financial infrastructure.

Public finance remains one of the most critical features of the current economic situation. Poorly designed social programs and the burden of increasing claims are particularly worrisome. Success in reforming the social benefits system will have major impact on the degree to which society as a whole perceives the democratic, free-market system to be effective.

The new government is fully committed to bringing the public administration and social benefits systems up to European Union standards. A professional civil service competently and impartially implementing democratically agreed upon policies is increasingly needed to ensure the long range success of the broad economic and social reforms now underway in Poland. Strengthening the policy and planning capacity within the government ministries and the civil servants through in-service training are becoming critical. In addition, high priority needs to be placed upon local government, supporting the decentralization of public sector responsibilities and the establishment of the necessary fiscal arrangements to finance the delivery of services at the local self-government level. Economically, decentralization is critical because it links the purchasers of services (taxpayers) more directly with the provider of services, thereby improving the accountability, relevance, and economic efficiency of the provision of public sector services. Also local government provides opportunities for broader participation in government, and thus education in democratic practices.

Strengthening Institutions Essential for Sustainable Democracy

With a deteriorating social welfare system, the fragmented political structure, and a host of issues unaddressed by government, Polish non-governmental organizations and citizen groups are needed to fill the gaps. Poles in general are frustrated by a situation over which they feel they have little

control. Political apathy is a reality which is likely to grow unless citizens begin to feel a deeper sense of involvement and participation in the process of change. The lack of independence, experience, training and coordination severely inhibit the effectiveness of non-governmental organizations. High priority is placed upon strengthening active and effective citizen participation in Poland.

Although the Polish media have made tremendous strides toward independence and professionalism, much remains to be done in improving the performance of the press and in the acceptance of an independent press by officials and the public.

U.S. COMMITMENT

The U.S. Government is committed to Poland and its people in Poland's transformation to a democratic, free-market society. U.S. assistance is most helpful when **focused and targeted on urgent problems** which must be solved for Poland to develop a strong market economy while strengthening its democratic institutions. The United States will not dissipate limited resources by trying to address every problem. Rather U.S. assistance is carefully focused on vital objectives in economic restructuring and in helping Poland develop an enduring, resilient democracy.

The U.S. Government is the largest bilateral donor providing assistance in the form of technical expertise, training and capital. The U.S. Agency for International Development is tasked with the responsibility of coordinating U.S. assistance, developing a synergy among the U.S. agencies and assistance implementors so assistance is efficient, yet has the greatest multiplier effect.

The U.S. Government is **coordinating its assistance activities with other major donors and lenders** in order to increase opportunities to maximize the impact of assistance. The U.S. Agency for International Development (USAID), which has the predominant role in providing U.S. assistance, will continue to take an increasingly active role in coordinating its assistance activities with other donors, i.e., the World Bank, the European Bank for Reconstruction and Development, the European Union, and other members of the G-24, leveraging and providing assistance where the U.S. has the appropriate expertise.

The U.S. Government will continue to **focus its assistance upon reform which can be replicated** in other parts of Poland. These pilot programs and models of transformation can be implemented with much less start-up costs, taking advantage of lessons learned. An additional focus of U.S. assistance will be working with Poland to invite decision makers of other countries within Central and Eastern Europe and the New Independent States to Poland. These countries undergoing democratic and market reform can discuss and glean from Poland the lessons, difficulties, and successes of

transformation, benefitting all involved.

Working with Poland, the U.S. Government is increasingly focusing its assistance upon the lesser developed areas of Poland, providing assistance to the regional and local areas which have heavily borne the burden of and been neglected by the democratic and market transformation.

To assist Poland in its transformation to a democratic, free-market society, the U.S. assistance strategy (FY1995-1997) places highest priority on the following objectives:

- (1) Supporting Private Sector Development,
- (2) Assisting Development of the Financial Sector,
- (3) Helping Transform the Public Sector to Better Support Democratic Development and a Market Economy, and
- (4) Strengthening Institutions Essential for Sustainable Democracy.

SUPPORTING PRIVATE SECTOR DEVELOPMENT

The private sector has developed very rapidly in Poland. There remain problems however, and "supporting private sector development" continues to be one of highest priority in the U.S. Assistance Strategy for Poland.

The updated strategy for promoting private sector development throughout Poland focusses primarily upon small and medium scale enterprises as the target for support, while it aims to reduce the numerous constraints limiting private sector investment and growth, help accelerate the pace of completing privatization transactions, and improve Polish entrepreneurial and private sector capacity.

The strategy aims to increase its focus on the regions of Poland, outside the main pockets of growth. USAID shall maximize the assistance to private enterprises utilizing experts of U.S. NGOs or volunteer organizations, which reduces costs yet provides high quality technical and managerial expertise. Though funding of the Polish American Enterprise Fund has been completed, the PAEF will remain fully active in investments and loans. This will be complemented by directing funds to small equity investments and to micro-loans, both priorities of the GOP. The strategy will increase efforts to promote and accelerate the privatization and restructuring of state owned enterprises through teams at the

Ministry of Privatization and through regional assistance. The strategy continues to focus upon reducing barriers limiting private sector investment and growth, however, fewer programs will be directed exclusively toward this purpose, and the remaining ones will phase out in FY96.

Approximately 26 percent of the FY95 budget is directed to the priority of strengthening private sector development.

Assisting Entrepreneurs

U.S. Assistance will:

- Provide capital investments and loans to commercially viable businesses, primarily through resources already committed to the Polish American Enterprise Fund;
- Provide additional capital and technical assistance for equity investments in commercially viable enterprises, and for small- or micro-loans to entrepreneurs (the focus between financial mechanisms to support small entrepreneurs and our work supporting financial systems per se will be intensified each year);
- Strengthen enterprises, especially on a regional basis, by making available resident business services for small and medium-sized enterprises, in areas such as formulating business and marketing strategies, loan proposals, and on-line resource assistance information for the Polish private sector; and,
- Promote U.S. trade and investment in Poland by providing grants for feasibility and marketing studies to U.S. investors particularly those entering the energy, environment, telecommunications, transportation, and agro-business infrastructure markets; and, by identifying Polish companies looking for U.S. business partners and making their interests known to the American business community.

Privatization and Restructuring

U.S. assistance will:

- Promote and accelerate the pace of privatization with particular attention to:
 - assisting in the development of financial mechanisms to support the privatization of the large number of Poland's state-owned enterprises involved in the Mass Privatization and Capital

Privatization Programs;

- assisting the Ministry of Privatization and other institutions (national, regional, and urban) responsible for promoting the privatization process;
 - assisting the Warsaw Stock Exchange with a separate central clearance and settlement facility to serve the Mass Privatization Program;
 - assisting through grass-roots level training of government officials, workers' councils, trade unions and company management regarding the long term benefits of privatization;
 - assisting the development of legal and regulatory framework and environment conducive to the growth and maintenance of newly privatized companies; and,
 - assisting to ensure that long-term environmental considerations are integrated into the privatization process and that firms meet international environmental standards.
- Provide technical assistance in the restructuring and privatization of key sectors through:
 - expertise in housing market and municipal service delivery; and,
 - expertise in telecommunications, transport, energy, and environment.

Removing Barriers and Improving the Business Climate

U.S. Assistance will:

- Assist the reform and implementation of the legal and regulatory framework to promote a free market and reduce impediments to investment through:
 - technical assistance in such key legal and regulatory fields as anti-monopoly and competition policy, contracts and commercial law;
 - technical assistance to relevant ministries and local governments on realistic energy pricing to both producers and consumers and on costing environmental consequences;
 - technical assistance to national and local

governments on business support programs and on cost recovery oriented project planning; and,

- technical assistance to relevant ministries, industry, and unions on labor/management relations.

- Provide policy and technical advice to relevant ministries and local governments on key productive sectors including:

- private housing construction management and real estate market development;

- energy and environment efficiency and regulation;

- land and infrastructure development supporting business growth; and,

- food agricultural production, distribution, and marketing systems which encourage efficiency and reward high quality.

ASSISTING DEVELOPMENT OF THE FINANCIAL SECTOR

The banking system and financial infrastructure remain serious barriers to economic growth. "Assisting the development of the financial sector" has increasingly become a high priority of the U.S. Assistance Strategy for Poland.

The strategy for assisting the development of the financial sector focusses primarily upon the banking industry and other financial institutions such as credit unions and rural cooperative banks. Development of the financial sector also includes assistance to the Ministry of Finance in the area of debt negotiation, in which Poland recently had unprecedented success. The Government of Poland has requested that we continue assistance in these critical areas, increasingly fund bank supervision, restructuring and privatization of the banking industry, and assist in developing Poland's capital market by strengthening the primary and secondary securities market. The Government of Poland has asked that U.S. assistance be focused upon strengthening a market-based mortgage and construction lending system, in which already much has been accomplished.

Approximately 20 percent of the FY95 budget is directed to the priority of assisting the development of the financial sector.

U.S. assistance will:

- Help recapitalize and restructure a select number of commercial banks through the reprogramming of \$200 million in Stabilization Fund resources, deployed in conjunction with other donors and IBRD structural adjustment loans.
- Strengthen the capacity of the National Bank of Poland to implement a sound regulatory and supervisory environment for the banking sector, (e.g., inspection procedures, strategic planning, troubled bank resolution);
- Assist the banking industry in responding to their role in a capital market environment, i.e., by strengthening the mechanisms for facilitating market development, linkages between capital markets and privatization, portfolio and investment management;
- Strengthen and restructure rural financial institutions (cooperative banks), and establish and strengthen financial institutions (savings and loans, credit unions) for consumers and small savers;
- Accelerate the development of Poland's capital market by strengthening the primary and secondary securities market through assistance to the Polish Securities Commission and Warsaw Stock Exchange on legal, regulatory, and investor education and protection (e.g., separation of the National Depository, common back office, over-the-counter market, commodities market, mutual funds, venture capital); and,
- Strengthen a market-based mortgage and construction lending system and policies by providing capital through a Housing Guaranty loan which complements IBRD and EBRD loans, and by technical assistance and training in mortgage institutions and banks at the primary and secondary level.

HELPING TRANSFORM THE PUBLIC SECTOR TO BETTER SUPPORT DEMOCRATIC DEVELOPMENT AND A MARKET ECONOMY

The strategy for helping transform the public sector has become one of the highest priorities of U.S. assistance to Poland. Although "public sector" encompasses a broad array of activities, U.S. assistance has specific and strategic targets mutually agreed to with the Government of Poland. One of the prime foci of public sector transformation, and a new focus for the U.S. Assistance Strategy, is assistance to aid national and local governments reform the pension and social benefits programs and arrest the explosive deficits of social security funds. Another focus is to

assist the national and local governments to reform the health care system, which includes strengthening private health care systems.

The Strategy continues to give attention to strengthening the financial and institutional responsibilities and capabilities of the municipalities and regional administrations, and increasingly addresses improving the capacity of public administration at the central and regional levels. Strengthening the capacity of the central and local governments to mobilize financial resources to implement cost recovery systems for housing related services and physical infrastructure will be a major effort of the U.S. Assistance Strategy during the next few years.

An additional aspect of this priority is to assist the transformation of the public universities. During the past three years, U.S. assistance has centered upon the Polish universities that carry out management training for entrepreneurs and students. During the next three years the U.S. strategy will emphasize university development and capacity building, strengthening the universities to manage, offer and deliver programs and courses relevant to a market economy.

Much of the efforts in public sector transformation will be carried out in conjunction with the World Bank and other donors in order to maximize our assistance.

Approximately 44 percent of the FY95 budget is directed to the priority of helping transform the public sector.

Reforming Public Institutions

U.S. assistance will:

- Strengthen the financial and institutional capacity of the national, regional, and local governments to carry out their responsibilities;
- Assist the central government to decentralize authority and establish an appropriate framework for central-local fiscal relations;
- Assist local governments to mobilize financial resources and to implement systems of cost recovery for housing related services and physical infrastructure; and,
- Strengthen self-sustaining management training institutions which deliver quality degree and short-course management training.

Reforming the Social Welfare System

U.S. assistance will:

- Assist the national and local governments to restructure, develop and implement appropriate social benefits support mechanisms; and,
- Assist the national and local governments in their health care reform.

Strengthening the Tax System

U.S. assistance will:

- Provide technical assistance and training in tax policy and tax administration to establish and sustain tax systems at the national and local levels which are more efficient, equitable and support of a democratic, free market economy.

STRENGTHENING INSTITUTIONS ESSENTIAL FOR SUSTAINABLE DEMOCRACY

Poland needs no assistance in national and local elections of civilian representative governments, as it is the model and a leader of full, free democratic elections for the entire ENI Region. From this standpoint, we salute Poland for all it has accomplished in this regard.

The strategy for strengthening institutions essential for sustainable democracy aims to assist citizens to rely upon their own active participation via organized fora and as individuals rather than continuing to rely upon the hoped for beneficence of central government, and to strengthen professional and independent media, legal and judiciary systems which provide checks and balances to the governments.

Approximately ten percent of the FY95 budget is directed to the priority of assisting the development of institutions essential for sustainable democracy.

U.S. assistance will:

- assist development of citizen participation and responsiveness at local, regional and national levels, through assistance to Polish non-governmental organizations (NGOs) in developing a viable constituency

and effectively communicating the needs to the governments;

- strengthen an independent, democratic and objective media which understands its public responsibilities;
- assist the legal and judicial system to deal with economic and organized crime found in an open, free market economy; and,
- assist the design and delivery of civic education and social science education, and other activities which encourage dialogue between citizens and their elected and appointed officials.

**ASSESSMENT OF
USG ASSISTANCE (FY1992-1994)
(APRIL 30, 1994)**

SUPPORTING PRIVATE SECTOR DEVELOPMENT

Assisting Entrepreneurs:

-- By April 30, 1994, the Polish-American Enterprise Fund (PAEF), third largest U.S. investor in Poland, has invested \$180 million in Poland with an additional commitment of \$63 million.

-- By April 15, 1994, the Enterprise Fund's Polish-American Enterprise Credit Corporation (ECC) disbursed \$75 million in over 3,000 small loans.

-- By April 15, 1994, the PAEF has invested in 30 joint ventures, venture that employ 10,000 workers and with annual sales of \$150 million.

-- By April 30, 1994, the PAEF has invested \$19 million in the Polish banking system, becoming shareholders in three banks, and conducting training for more than 100 bankers throughout Poland.

-- In 1992, the PAEF attracted funds from the EBRD (\$50m), from the Austrian Creditanstalt (\$7m), and \$44m from U.S. financial investors to form the Polish Private Equity Fund. With \$50m of PAEF funds, the new Equity Fund had \$151m to invest in Poland. This was the first time U.S. pension funds were attracted to Central Europe.

-- By April 30, 1994, through U.S. non-governmental organizations, more than 600 small and medium sized businesses throughout Poland have been directly assisted with marketing, management, production and product development, finance, and accounting.

-- Since 1991, more than 110 U.S. Peace Corps volunteers have provided assistance to small and medium-sized businesses by teaching at business training institutes and schools, and by assisting in privatization through Poland's Regional Development Agencies, economic foundations, and business incubators.

-- By April 15, 1994, approximately 15,000 business men and women have improved their managerial skills and enhanced their knowledge of market economy through participation in U.S. assisted programs provided at training centers affiliated with universities in Wrocław, Warsaw, Olsztyn, Białystok, Poznań and Rzeszów.

-- By April 30, 1994, 2000 training grants for entrepreneurial training had been given to small business persons by the

Educational Enterprise Foundation, which was established in 1991 by the Polish Government and the Polish American Enterprise Fund.

Privatization and Restructuring:

-- By April 15, 1994, technical assistance helped design the framework for the Mass Privatization Program, which includes the national investment funds, legal framework, and issues related to training and distribution. Also technical assistance prepared detailed implementation plans of the Mass Privatization Program, which included fiscal agent, worker share trading templates, and distribution issues.

-- Also accelerating privatization was the designed phased approach to divest ancillary assets. The Ministry of Privatization and the Council of Ministers are using the design/guidebook to assist any firm undergoing privatization.

-- By December 1993, with USG assistance, five medium-sized local heating plants were privatized.

-- By April 15, 1994, the privatization of the glass sector resulted in four companies being privatized, two companies being restructured and five companies with transactions in progress. One company represents the third largest privatization transaction to date in Poland.

-- By April 15, 1994, U.S. assistance helped prepare LOT Airlines to attract a strategic partner and investor.

-- By April 15, 1994, the wood panelling and furniture sector assisted privatization resulted in analysis of the industry, and four completed and two privatization transactions in process.

-- More than 100 regional and local public and private sector officials were trained in the privatization process.

-- By April 15, 1994, the Polish American Enterprise Fund privatized three state owned enterprises through capital managerial privatization. Discussions are being presently held concerning future PAEF assisted privatizations.

Removing Barriers and Improving the Business Climate:

-- By April 15, 1994, technical assistance aided in the creation of a consumer protection department within the Anti-monopoly Office, the drafting and enactment of the law on unfair competition (1992), and preparation of drafts revisions to the competition law and energy pricing law. All the central and 25 percent of the regional officers were trained in the analysis of specific cartel and monopolization cases, developing procedures and policies to address deceptive and unfair advertising and marketing practices.

-- By April 30, 1994, more than 100 lawyers and government

officials were trained in such areas as intellectual property, insolvency, joint ventures and real property development, trademark protection, environmental law, and franchising.

-- By April 15, 1994, the capability of the Ministry of Environment and more than ten local governments was strengthened to formulate long-term policies and devise strategies to alleviate major environmental threats.

-- With USG assistance, the Ministry of Industry and Trade drafted an Energy Law, dealt with restructuring of electric and heating utilities, and began restructuring efforts in the gas sector.

ASSISTING DEVELOPMENT OF THE FINANCIAL SECTOR

-- Technical assistance and training helped the Ministry of Finance, the National Bank of Poland, and commercial banks adjust to the new environment. (For example, the very successful external debt negotiations with the London Club, bank supervision and training, budget departments, government securities markets, and commercial bank operations and strategic planning.)

-- Technical assistance and training is helping two state-owned commercial banks develop investment banking departments and improved corporate finance expertise. This assistance allows these two demonstration banks to establish an in-house capability which can accelerate privatization, structure financial M&A transactions and develop a securities business.

-- Technical assistance promoted, organized and developed private, self-help, democratic, cooperative savings and credit institutions. By April 15, 1994, more than 25 credit unions are operational with about 17,000 primary members and \$3.4 million in savings. By April 15, 1994, three regional banks are operating with

HELPING TRANSFORM THE PUBLIC SECTOR TO BETTER SUPPORT DEMOCRATIC DEVELOPMENT AND A MARKET ECONOMY

Reforming Public Institutions:

-- By April 15, 1994, more than 200 trainers received training, under the International City /County Management Association project in municipal finance and real property evaluation. They were able to train the next layer of students. Training materials were prepared which demonstrated Polish and U.S. experiences; the best manuals were translated into Polish and distributed widely.

-- In collaboration with the World Bank, USAID has assisted the Council of Ministers in developing a municipal credit program at the national level which aims to assist local governments to finance viable municipal infrastructure projects. Also, a draft condominium law has been prepared and is being reviewed at the

Parliament.

-- By April 15, 1994, seven largest cities (Warsaw, Kraków, Lublin, Łódź, Poznań, Szczecin, Gdańsk) in Poland have been assisted in improving financial systems, land and housing management systems and economic development promotion. These projects further policy development at the central level and are providing models for replication by other municipalities.

-- By the end of 1993, five training centers were established able to respond to training needs in their communities (many of them charging fees for the first time), and all will continue to operate after the U.S. grants expire. Other significant changes in academic institutions have begun: academic diversity has been promoted as students are allowed to choose between traditional lecture-type courses and new, interactive courses offered under the AID-funded program. Basic reform has been undertaken to change management training and economics education curricula to the needs of a market economy. More than 60 new courses have been developed with course materials available in Polish. New MBA-type of programs are under way at two universities.

Reforming the Social Welfare System:

-- With the USAID assistance, two small housing cooperatives have demonstrated that they can organize themselves to produce affordable houses in a free market environment. 150 families in Żory and Białystok will be able to move to row houses and apartments in multi-family houses when construction is completed. Resident advisors provided assistance to coop members and assisted Polish authorities in restructuring and streamlining the existing housing cooperatives.

-- By April 15, 1994, approximately 4,000 Poles have taken the self-employment and entrepreneurial skills training program, and 570 graduates have started their own businesses.

-- By April 30, 1994, over 650 trainees have graduated from the Praga and the Gdynia Centers and have been placed in new jobs or have returned to existing jobs with up-graded skills. The second training center in Gdynia was officially opened in September 1993. Polish construction companies, U.S. firms and joint ventures are offered construction assistance through on-the-job training arrangements (Building Trade Consortium of the AFL-CIO).

-- By April 15, 1994, more than 150 physicians and technicians from the cities of Kraków, Białystok, and Łódź were trained in emergency medical services. Three emergency centers were opened equipped with ambulances and medical equipment.

-- By April 1994, more than 3500 women were screened for breast cancer, with 30 cases of cancer detected. This screening was initiated for the first time in Poland, the only formal screening

program in Central and Eastern Europe.

-- By March 1994, the Friends of Litewska Children's Hospital became the prototype for private funding of capital and technological improvements and for volunteerism.

-- By 1994, a model Regional Employment Services Center is operating providing training to Labor officials throughout the region in order to better serve the unemployed. This Center is being replicated in other cities within Poland, providing training to Ministry of Labor and city officials, as well as to officials from the Baltic countries.

STRENGTHENING INSTITUTIONS ESSENTIAL FOR SUSTAINABLE DEMOCRACY

-- USG assistance to the Polish Parliament has helped streamline the work of the Parliament by providing modern automation and office systems and by training key staff. The program helped develop independent and effective information and analyses units. The bureaus of research and analyses are now able to serve the Members of Parliament and professional staff, so that the elected representatives can better perform their necessary roles in a democratic society. The bureaus now provide assistance to other parliaments in the region.

-- U.S. experts provided comments on the draft Polish Constitution and analyzed Poland's White Collar Crime Law. Also, at the request from the Ministry of Justice, a group of prosecutors and judges received training in white collar crime in early 1994.

-- By April 15, 1994, more than 200 media and broadcast students of journalism received training at the Warsaw Journalism Center, the only facility in Poland to offer professional, practically oriented training. Most of the former graduates have been offered jobs with major Warsaw newspapers, magazines and radio stations.

-- Several Polish NGOs have received assistance in establishing themselves and are now able to offer services ranging from training for the unemployed, business advisory and consultation, database for the self-help groups, grants for local press, running community owned telephone cooperatives, environmental cleanup and protection, and women development programs.

APPR: CP ()

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UNCLASSIFIED

USAID/ENI/ECA:PALEXANDER:PA
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PRIORITY WARSAW

AIDAC PASS TO AID REP

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TAGS:

SUBJECT: REPORT ON REVIEW OF POLAND SEED STRATEGY UPDATE,
FY 1995-1997

REF: A. POLAND STRATEGY UPDATE, 1995-1997

B. CURRENT POLAND SEED STRATEGY

I. SUMMARY: ON JUNE 21, THE POLAND STRATEGY UPDATE, FY '95-'97, WAS PRESENTED FOR USG INTER-AGENCY DISCUSSION BY AIDREP DONALD PRESSLEY. FOR THE FIRST TIME SINCE THE INCEPTION OF THE SEED-FUNDED PROGRAM FOR POLAND, THE UPDATED COUNTRY STRATEGY DOCUMENT INCLUDED A DETAILED PROGRAM AND PROJECT-SPECIFIC BUDGET WHICH, IN TOTAL, PROPOSED A GRADUALLY-DECLINING LEVEL STARTING WITH \$74.2 MILLION FOR FY '95; TO \$65.7 MILLION FOR FY '96; AND \$51.7 MILLION FOR FY '97.

THE STRATEGY AMENDMENT PROPOSED A PROGRESSIVE FOCUSING AND CONCENTRATING OF THE SEED PROGRAM ON PRIORITIES SUPPORTING THE CONSOLIDATION AND COMPLETION OF KEY ECONOMIC AND SOCIAL REFORMS IN POLAND BY THE END OF THE DECADE. TO DO THIS, THE AIDREP PROPOSED A CONCENTRATION OF PROGRAM ACTIVITIES FROM OVER 160 IN FY 1993, TO APPROXIMATELY 50

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ACTIVITIES FOR PHASE DOWN BY THE YEAR 2000. IN ECONOMIC RESTRUCTURING, THE PROGRAMMATIC FOCUS WOULD SHIFT TO ASSISTANCE FOR SMALL AND MEDIUM SIZED-ENTERPRISES; STRENGTHENING THE POLICY, LEGAL AND REGULATORY FRAMEWORK OF KEY FINANCIAL SYSTEMS AND CAPITAL MARKETS NECESSARY TO PROMOTE THE DEVELOPMENT OF STRONG PRIVATE ENTERPRISE. TO SUPPORT THE "QUALITY OF LIFE" DURING THE TRANSITION, THE STRATEGY PROPOSED A NEW "SOCIAL SECTOR RESTRUCTURING" (SSR) INITIATIVE TO HELP RESTRUCTURE IMPORTANT COMPONENTS OF THE SOCIAL SECTOR, SUCH AS THE PENSIONS, WELFARE, HEALTH CARE, AND EMPLOYMENT/LABOR ADJUSTMENT SYSTEMS, AS WELL AS TO HELP ACCELERATE HOUSING SUPPLY THROUGH MARKET-BASED MORTGAGE AND CONSTRUCTION FINANCING. A SELECT FOCUS ON INTEGRATED REGIONAL APPROACHES TO REGIONAL SOCIO-ECONOMIC DEVELOPMENT ALSO CONSTITUTES A NEW FEATURE OF THE AMENDED STRATEGY. ENVIRONMENT, AND ENERGY ISSUES ARE TO BE INCREASINGLY INTEGRATED INTO LOCAL GOVERNMENT AND PUBLIC-PRIVATE PROCESS BASED ON CITIZEN EMPOWERMENT, PRIVATIZATION AND SME DEVELOPMENT. MANAGERIALLY, THE STRATEGY PROPOSES A STRONGER PROJECT DESIGN AND MANAGEMENT ROLE FOR USALD/WARSAW, ALONG WITH A STRONGER CEE REGIONAL SUPPORT ROLE WITH RESPECT TO LEGAL, CONTRACTUAL AND PROJECT DEVELOPMENT SERVICES TO THE SOME OF THE NORTHERN TIER, BALTICS AND NEARBY NIS REGION. END SUMMARY.

II. PARTICIPANTS:

AID/ENI
STATE/EUR/EEA
STATE/EUR/EE
USDOL/ILAB
OMB/IAD
USIA/EEN
DOJ
G/EG/CTIS
TREASURY
FTC

III. INTRODUCTION. AIDREP DON PRESSLEY HIGHLIGHTED KEY FEATURES OF THE STRATEGY UPDATE. THESE INCLUDE A MORE FOCUSED, CONCENTRATED PROGRAM OF FEWER, BUT MORE SYNERGISTIC ACTIVITIES IN SUPPORT OF SMALL AND MEDIUM ENTERPRISES; FINANCIAL INSTITUTIONS AND CAPITAL MARKETS SYSTEMS; SELECTIVE REGIONAL (SUB-NATIONAL) DEVELOPMENT; AND A NEW INITIATIVE IN SOCIAL SECTOR RESTRUCTURING.

A. THIS LATTER PROGRAM PROVIDES GREATER EMPHASIS ON QUOTE QUALITY OF LIFE UNQUOTE PART OF THE COUNTRY PORTFOLIO, AND IS PROPOSED TO INCLUDE ASPECTS OF PENSION, HEALTH AND WELFARE REFORM, HOUSING, AND LABOR/EMPLOYMENT ADJUSTMENT. US TECHNICAL ASSISTANCE WILL PROVIDE COLLABORATIVE

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EXPERTISE IN THE IDENTIFICATION OF FINANCIAL AND ECONOMIC COSTS AND BENEFITS OF KEY POLICY OPTIONS TO HELP GENERATE NATIONAL CONSENSUS ON PENSION, WELFARE AND HEALTH REFORM. AN IMPORTANT ELEMENT OF SOCIAL SECTOR INITIATIVES WILL STRENGTHEN BOTH LOCAL GOVERNMENT AND PUBLIC ADMINISTRATION, AS WELL AS INNOVATIVE PARTNERSHIPS BETWEEN GOVERNMENT AND MORE COMPETENT NON-GOVERNMENTAL INSTITUTIONS TO IMPROVE BOTH THE FINANCING AS WELL AS THE DELIVERY OF SOCIAL SERVICES.

B. HIGHLIGHTING THE MANAGEMENT IMPLICATIONS OF THIS PROGRAM, THE AIDREP REQUESTED MORE AUTHORITY FOR PROJECT DESIGN AND MANAGEMENT IN WARSAW; SUGGESTED THE REDUCTION IN THE NUMBER OF TOTAL ACTIVITIES FROM OVER 160 TO APPROXIMATELY 50; AND AN EXPANDED CEE REGIONAL PROGRAMMATIC SUPPORT ROLE THROUGH DEPLOYMENT OF ADDITIONAL POLAND-BASED LEGAL, CONTRACTUAL AND PROJECT DEVELOPMENT STAFF.

C. IN KEEPING WITH A TARGET PHASE-DOWN AROUND THE YEAR 2000, MR. PRESSLEY PROJECTED A TOTAL SEED PROGRAM OF ASSISTANCE TO POLAND AT APPROXIMATELY \$1 BILLION. THE BUDGET PROPOSED BY THE AIDREP SUGGESTED AN FY 95 BUDGET OF \$74.2 MILLION; \$65 MILLION FOR FY '96; AND AN ANNUAL BUDGET DURING THE LAST THREE YEARS OF THE DECADE AT A PLATEAU-LEVEL OF APPROXIMATELY \$51 MILLION.

IV. ISSUES/DISCUSSION

A. PRIVATIZATION. IN RESPONSE TO CONCERNS WITH THE PACE OF PROGRESS IN PRIVATIZATION OF STATE-OWNED-ENTERPRISES (SOE), THE AIDREP ADVISED THAT THE EXISTING COALITION GOVERNMENT IS POLITICALLY COMMITTED TO SPECIFIC TARGETS IN PRIVATIZATION. WHILE A MORE MORE PRECISE DIAGNOSTICS OF PROGRESS AND CONSTRAINTS WOULD BE USEFUL, THE OAR PROPOSED STRATEGY IS TO SHIFT US ASSISTANCE AWAY FROM THE ENTERPRISE-SPECIFIC APPROACH TO RESTRUCTURING, AND CONCENTRATE ON ESTABLISHING STRONG FINANCIAL SYSTEMS THAT WILL IN THEMSELVES CREATE THE INCENTIVES AND FACILITATE THE PROGRESS OF PRIVATIZATION. TO SUPPORT PRIVATIZATION THROUGH STRENGTHENING OF FINANCIAL SYSTEMS, THE AIDREP SUGGESTED THAT CONTINUED TECHNICAL ASSISTANCE SHOULD EMPHASIZE THE FOLLOWING:

- ASSISTANCE TO THE NATIONAL BANK OF POLAND TO STRENGTHEN PUBLIC CONFIDENCE IN THE BANKING SYSTEM (WORK ON REGULATORY SYSTEMS WILL BE CRITICAL);
- A PILOT DEVELOPMENT OF INVESTMENT BANKING CAPACITY IN AT LEAST TWO BANKS;
- HELP WITH THE ESTABLISHMENT OF CAPITAL MARKETS, SUCH AS

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A COMMODITY MARKET AND THE ESTABLISHMENT OF A PENSION FUND LINKAGE WITH THE CAPITAL MARKET IN POLAND;

-- ASSISTANCE WITH INTER-MINISTERIAL PUBLIC POLICY AND REGULATORY DEVELOPMENT ON COMMERCIAL BANKING AND PRIVATIZATION.

ACTION/DECISION: IT WAS AGREED THAT THE OAR WOULD DEVELOP, IN COLLABORATION WITH THE DEPT. OF TREASURY AND AID/W, SPECIFIC BENCHMARK INDICATORS, IMPLEMENTATION SCHEDULE, AS WELL AS A REPORTING MECHANISM TO MONITOR KEY FEATURES OF THE FINANCIAL SYSTEMS REFORM.

B. ASSISTING ENTREPRENEURS

THE AIDREP RESPONDED TO ISSUES AND QUESTIONS RELATED TO SUBSTANTIVE AND GEOGRAPHIC FOCUSING AS WELL AS STRENGTHENING THE SYNERGISM AMONG PROJECTS ORIENTED TO STRENGTHEN PRIVATE ENTERPRISE DEVELOPMENT IN POLAND. UNDER THE PROPOSED STRATEGY, THE EFFORT WILL BE TO FOCUS ON THE DEVELOPMENT OF MEDIUM AND SMALL BUSINESS ENTERPRISES. THE DEVELOPMENT OF THE CRUCIAL FINANCIAL SYSTEMS TO SUPPORT SMALL BUSINESS WILL BE ASSISTED BY ORGANIZATIONS SUCH AS THE POLISH AMERICAN ENTERPRISE FUND AND CARESBAC THROUGH AN EXPANDED NETWORK OF SMALL LOAN WINDOWS AND INCREASED INFORMATION SHARING. A NEW REGIONAL PROJECT TO PROVIDE POLICY, MANAGEMENT, AND GRASS-ROOTS TECHNICAL ASSISTANCE IS BEING DEVELOPED, TO SUPPORT THIS INITIATIVE IN POLAND.

DECISION/ACTIONS NEEDED: AS THIS WORK ON THE INITIATIVE CONTINUES, STEPS SHOULD BE TAKEN TO TAKE INTO CONSIDERATION BOTH THE SUPPLY RESOURCES FROM PAEF AND CARESBAC WITH NEEDS AND CONSIDERATIONS FROM THE DEMAND SIDE-- I.E. THE SMALL BUSINESS CLIENTS. STRATEGICALLY DEPLOYED RESIDENT LONG-TERM TA SHOULD BE USED JUDICIOUSLY TO ENGAGE SHORT-TERM TA AS NEEDED. FACILITATED BY NEW LAWS, SUCH AS THE COLLATERAL LAW, ONE PRIORITY OF LONG-TERM TA SHOULD BE TO HELP BUILD STRONGER LINKAGES BETWEEN SMALL BUSINESS AND EMERGENT FINANCING INSTITUTIONS.

C. LEGAL REFORM TO SUPPORT ENTERPRISE DEVELOPMENT

THE AIDREP PROPOSED A STRATEGIC FOCUS AND CONSOLIDATION OF PROJECTS ON POLICY, LAWS, REGULATIONS AND FINANCIAL SYSTEMS NEEDED TO DEVELOP AND SUPPORT MICRO, SMALL AND MEDIUM-SIZE (SME) ENTERPRISES. HE SUGGESTED THAT SOME PROGRAM RESOURCES SHOULD ALSO BE TARGETED TO SUPPORT POLISH ORGANIZATIONS TO CONDUCT PRO-SME ADVOCACY INITIATIVES. COMMENTATORS AGREED THAT AT THIS STAGE REGULATORY REFORM MAY PLAY A RELATIVELY MORE IMPORTANT

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ROLE THAN POLICY DEVELOPMENT, AND THAT OUR STRATEGY SHOULD RELY MORE ON LOCAL SUB-CONTRACTING WITH POLISH FIRMS AND ORGANIZATIONS TO ACHIEVE PROGRAM OBJECTIVES.

ACTION/DECISION: IT WAS PROPOSED AND AGREED THAT THE OAR WOULD SUBMIT FOR ENI BUREAU REVIEW, A PROPOSAL ON USE OF TA AS PART OF A NEW CONSOLIDATED, FOCUSED APPROACH TO LEGAL-REGULATORY REFORMS SUPPORTIVE OF SMES IN POLAND. THE APPROACH IS EXPECTED TO RELY ON APPROACHES THAT EMPOWER POLISH FIRMS AND INSTITUTIONS TO ASSUME MORE RESPONSIBILITY FOR SME DEVELOPMENT. USAID/WARSAW WILL THEN WORK WITH THE BUREAU TO DEVELOP PROCUREMENT APPROACHES SUPPORTIVE OF THIS APPROACH.

D. MUNICIPAL AND HOUSING INFRASTRUCTURE DEVELOPMENT

ONE OF THE NEW INITIATIVES PROPOSED IN THE STRATEGY UPDATE INCLUDES A PILOT PROGRAM ON MUNICIPAL INFRASTRUCTURE DEVELOPMENT, AS AN ASPECT OF OUR HOUSING PROGRAM. \$10 MILLION OF HOUSING GUARANTY AUTHORITY, INCLUDING A MODEST AMOUNT OF TA WOULD BE USED TO CHANNEL CREDIT TO MUNICIPALITIES AND DEVELOP A RESOURCE BASE FOR INFRASTRUCTURE SUCH AS WATER, SEWERAGE, ELECTRICITY AND ROAD IMPROVEMENTS IMPORTANT TO MUNICIPAL AND HOUSING DEVELOPMENT. THE PILOT AND SEED RESOURCES WOULD PAVE THE WAY FOR A FOLLOW-ON WORLD BANK LOAN TO SUPPORT SIGNIFICANT MUNICIPAL INFRASTRUCTURE INVESTMENTS IN 1995. OUR PILOT ACTIVITY IS ALSO EXPECTED TO HELP THE POLES BETTER UTILIZE THE EXISTING \$400 MILLION WORLD BANK HOUSING GUARANTY MORE EFFECTIVELY AND EFFICIENTLY. CONSISTENT WITH OUR PLANS TO FOCUS ON THE DEVELOPMENT OF A LIMITED NUMBER OF SPECIFIC REGIONS, THIS APPROACH WOULD ACCELERATE THE DEVELOPMENT OF NEW LAND FOR HOUSING IN THOSE AREAS OF POLAND.

THE AIDREP CLARIFIED HOW MUNICIPAL AND HOUSING INFRASTRUCTURE DEVELOPMENT APPROACHES ON LOCAL PUBLIC AND PRIVATE INITIATIVES, TO INCLUDE ENVIRONMENT, ENERGY AND SME DEVELOPMENT. THE SUPPORT OF REFORMS AT MUNICIPAL AND REGIONAL LEVELS WILL SERVE AS MODELS FOR OTHER AREAS OF POLAND.

E. STRENGTHENING OF DEMOCRATIC INSTITUTIONS

JUDICIAL SYSTEM AND RULE OF LAW

THE AIDREP EMPHASIZED THE NEED FOR A GENERAL SHIFT AWAY FROM A BROAD SUPPORT OF RULE OF LAW INITIATIVES, IN FAVOR OF A TARGETED APPROACH TO REFORMS THAT SUPPORT OUR STRATEGIC OBJECTIVES. THIS APPROACH IMPLIES BUILDING ON EXISTING INSTITUTIONAL RELATIONSHIPS TO THE MAXIMUM EXTENT POSSIBLE. RECENT URGENT BILATERAL INTEREST IN TO ADDRESS

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WHITE-COLLAR AND ORGANIZED CRIME IN POLAND, WILL RECEIVE FULL CONSIDERATION FOR PROGRAM INCLUSION IN THIS STRATEGIC CONTEXT. ACTION/DECISION: THE AIDREP WILL CLARIFY ITS STRATEGY IN THIS AREA IN VIEW OF POTENTIAL WHITE-COLLAR CRIME INTERESTS AND PROPOSE A REVISED BUDGET TO SUPPORT THE ACTIVITIES IN THIS SUB-SECTOR.

F. CIVIC EDUCATION AND EDUCATION REFORM

THE CURRENT STRATEGY UPDATE DOCUMENT DID NOT ADEQUATELY DISCUSS PLANS FOR SUPPORT OF CIVIC EDUCATION AND EDUCATIONAL REFORM IN POLAND.

ACTION/DECISION: THE UPCOMING GRANT TO USIA FOR CIVIC EDUCATION AND EDUCATIONAL REFORM SHOULD CLEARLY SPECIFY PROGRAM OBJECTIVE AND PERFORMANCE INDICATORS. OAR/ POLAND WOULD REVIEW AND APPROVE THE OBJECTIVES AND INDICATORS PRIOR TO EXECUTING THE GRANT WITH USIA.

G. FREE AND INDEPENDENT MEDIA

GIVEN THE ACKNOWLEDGED PROGRESS IN THE ESTABLISHMENT OF A FREE, RESPONSIBLE AND INDEPENDENT MEDIA NETWORK IN POLAND, THE AIDREP PROPOSED A PHASE-OUT STRATEGY OF SELECTIVE SUPPORT TO INSTITUTIONS LIKE THE WARSAW SCHOOL OF JOURNALISM, IN ORDER TO HELP THEM TRANSITION TO SELF-SUSTAINABILITY. IT WAS AGREED THAT IT WOULD BE DESIRABLE TO PROVIDE DIRECT ASSISTANCE TO THE WARSAW SCHOOL OF JOURNALISM RATHER THAN THROUGH THE INTERNATIONAL MEDIA FUND (IMF), BUT CONTRACTUAL ARRANGEMENTS WITH IMF AND THE GRANT-WORTHINESS OF THE SCHOOL OF JOURNALISM NEED TO BE EXAMINED. IN RESPONSE TO OTHER COMMENTS MR. PRESSLEY DID NOT, AT PRESENT, FORESEE A USG ROLE IN THE PRIVATIZATION OF LARGE ELECTRONIC MEDIA SUCH AS TELEVISION, THOUGH HE ACKNOWLEDGED THAT SUCH ASSISTANCE COULD BE CONSIDERED AT AN OPPORTUNE TIME THROUGH OUR ENTERPRISE DEVELOPMENT PORTFOLIO. ACTION/ DECISION: IT WAS AGREED THAT MEDIA-RELATED ASSISTANCE WOULD FOCUS ON THE WARSAW SCHOOL OF JOURNALISM, EITHER THROUGH THE IMF OR THROUGH A DIRECT GRANT. CONTRACTUAL AND GRANT-WORTHINESS ISSUES IDENTIFIED ABOVE NEED TO BE EXAMINED.

H. ROLE OF PUBLIC COMMUNICATION AND SOCIAL MARKETING

ONE NOTEWORTHY FEATURE OF THE CEE PROGRAM-TO-DATE HAS BEEN THE LACK OF APPLIED US COMMUNICATION, PUBLIC RELATIONS AND SOCIAL MARKETING KNOW-HOW TO ASSIST WITH PUBLIC PARTICIPATION IN THE REFORM PROCESS. SUCH TECHNICAL ASSISTANCE WAS FREQUENTLY DISCUSSED AND REQUESTED AS VALUABLE BY VARIOUS POLISH INTERLOCUTORS DURING THE RECENT SOCIAL SECTOR RESTRUCTURING DESIGN EFFORT. IN RESPONSE TO

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QUESTIONS ON THIS ISSUE, THE AIDREP ACKNOWLEDGED THAT THIS IS AN IMPORTANT AREA OF US COMPARATIVE ADVANTAGE, AND THAT A FUTURE REFINEMENT IN THE POLAND STRATEGY WOULD REFLECT THIS CONVICTION. ACTION/DECISION: USAID/WARSAW WILL CONSIDER THIS AREA AS PART OF THE DEVELOPMENT OF THE SOCIAL SECTOR RESTRUCTURING INITIATIVE AS WELL AS IN THE NEXT STRATEGY REVISION.

V. PHASE-DOWN STRATEGY

A COMMENT WAS MADE CONCERNING THE PHASE-DOWN STRATEGY REFLECTED IN THE BUDGET AS A "PLATEAU" OF APPROXIMATELY \$50 MILLION ANNUALLY DURING THE LAST THREE YEARS OF THE DECADE. WHY, IT WAS ASKED, DID THE BUDGET NOT DECLINE GRADUALLY TO ZERO? THE AIDREP'S REPLY REFLECTED WIDELY-ACKNOWLEDGED PERCEPTION THAT IT IS POLITICALLY UNDESIRABLE TO SIGNAL A PRECIPITOUS DECLINE OF US INTEREST IN A GEOPOLITICALLY IMPORTANT REFORM-SENSITIVE PART OF THE WORLD SUCH AS POLAND AT A TIME WHEN THE SOCIOECONOMIC TRANSFORMATION IS NOT YET SECURED. NEVERTHELESS, IT WAS ACKNOWLEDGED THAT OUR FUTURE PROGRAMMING FOR POLAND SHOULD BE INCREASINGLY BASED ON PROGRESS IN ATTAINMENT OF STRATEGIC "IRREVERSIBLE REFORMS". WE SHOULD PHASE OUT OF SUB-SECTORS IN WHICH "IRREVERSIBLE" CHANGE IS CONFIRMED AND SPECIFIC TARGETS ARE MET.

ACTION/DECISION: THE OAR SHOULD IDENTIFY AND PROPOSE SECTOR-SPECIFIC INDICATORS OF "IRREVERSIBLE" REFORM; AND USE THESE IN FUTURE STRATEGY UPDATES, AS WELL AS A BASIS FOR DIALOGUE WITH POLES ON FUTURE PHASE-DOWN.

VI. THERE IS NO NEED TO REVISE THE STRATEGY; THIS CABLE, WHEN FINALIZED WILL BECOME AN INTEGRAL PART OF THE APPROVED STRATEGY AND, AS SUCH, WILL BE PRINTED ALONG WITH THE MISSION'S STRATEGY DOCUMENT. THIS CABLE HAS BEEN CLEARED BY THE FOLLOWING INTER-AGENCIES: OMB, TREASURY, COMMERCE, DOL, USIA, EPA, USDA, JUSTICE, AND FTC. YY